

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|--|--------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name Osceola-Lake Conservation District | County Osceola |
| Audit Date 9/30/05 | Opinion Date 11/1/05 | Date Accountant Report Submitted to State: 11/15/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

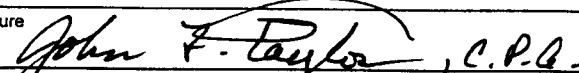
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|--|-------------------------|-------------------------|
| Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C. | | | |
| Street Address 134 W. Harris Street | | City Cadillac | State MI |
| Accountant Signature  | | ZIP 49601 | Date 11/14/05 |

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2005

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Audit Report | 1 |
| Management's Discussion and Analysis | 2-5 |
| Basic Financial Statements | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 6 |
| Statement of Activities | 7 |
| Fund Financial Statements | |
| Balance Sheet - General Fund | 8 |
| Reconciliation of Balance Sheet of General Fund to Net Assets | 9 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund | 10-11 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes In Fund Balance of General Fund to the Statement of Activities | 12 |
| Notes to Financial Statements | 13-18 |
| Required Supplemental Information | |
| Budgetary Comparison Schedule - General Fund | 19-20 |

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER,

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE,
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

November 1, 2005

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
Osceola-Lake Conservation District
Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities of the Osceola-Lake Conservation District, Reed City, Michigan, as of and for the year ended September 30, 2005, which comprise the District's basic financial statements as listed in the table of contents. All information included in these financial statements is the representation of the management of the Osceola-Lake Conservation District, Reed City, Michigan.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Osceola-Lake Conservation District as of September 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and 19 through 20, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board Statement 34. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

BAIRD, COTTER AND BISHOP, P.C.

Baird . Cotter : Bishop PC

OSCEOLA-LAKE CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

Osceola-Lake Conservation District, a Conservation District located in Osceola and Lake Counties, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Osceola-Lake Conservation District administration's discussion and analysis of the financial results for the fiscal year ended September 30, 2005. In future years, comparative information will be provided.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The District's entire assets and liabilities, both short and long-term, are reported.

C. Summary of Net Assets

The following schedule summarizes the net assets at September 30, 2005:

| | |
|-------------------------|------------|
| Assets | |
| Current Assets | \$ 149,867 |
| Liabilities | |
| Current Liabilities | \$ 10,487 |
| Non Current Liabilities | 6,797 |
| Total Liabilities | \$ 17,284 |
| Net Assets | |
| Unrestricted | \$ 132,583 |

D. Analysis of Financial Position

During the fiscal year ended September 30, 2005, the District's net assets increased by \$20,417.

OSCEOLA-LAKE CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

E. Results of Operations

For the fiscal year ended September 30, 2005, the results of operations were:

| | <u>Amount</u> | <u>% of Total</u> |
|-------------------------|-------------------|-------------------|
| General Revenues | | |
| Investment Earnings | \$ 2,243 | 1.39% |
| State Sources | 53,650 | 33.34% |
| Other | <u>1,640</u> | <u>1.01%</u> |
| Total General Revenues | <u>\$ 57,533</u> | <u>35.74%</u> |
| Program Revenues | | |
| Charges for Services | \$ 65,858 | 40.93% |
| Operating Grants | <u>37,501</u> | <u>23.33%</u> |
| Total Program Revenues | <u>\$ 103,359</u> | <u>64.26%</u> |
| Total Revenues | <u>\$ 160,892</u> | <u>100.00%</u> |
| Expenses | | |
| General Government | <u>140,475</u> | <u>100.00%</u> |
| Change in Net Assets | <u>\$ 20,417</u> | |

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Charges For Services

The majority of revenue in Charges for Services is made up of Tree Sales by the District. The Conservation District had \$59,215 in Tree Sales for the year ended September 30, 2005.

2. State Sources

The majority of the state sources is comprised of grants. The District collected \$53,650 in grant money for 2004/2005 fiscal year.

OSCEOLA-LAKE CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

3. Operating Grants

The District funds a portion of its operations with grants from local units of government. For the fiscal year ended September 30, 2005, grants from local units of government accounted for \$37,501. That consisted of \$8,000 from Lake and Osceola Counties, \$28,751 in contributions from local governments for Household Hazardous Waste Collection and \$750 in contributions for the Pere Marquette Project.

G. General Fund Budgetary Highlights

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on October 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on September 30.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|--------------------|--------------------|-----------------|------------|----------------------------------|
| Total Revenues | \$ 150,358 | \$ 161,932 | \$ 160,892 | \$ (1,040) |
| Total Expenditures | 150,358 | 140,881 | 139,831 | 1,050 |
| Total | \$ 0 | \$ 21,051 | \$ 21,061 | \$ 10 |

The variance in the Total Revenues Original Budget to Final Budget was an increase of \$11,574 with the largest increases coming from state and local grants and tree sales. The variance in the Total Expenditures Original Budget to Final Budget was an decrease of \$9,447 with the largest decrease coming from the household hazardous waste project.

H. Factors Bearing on the District's Future

At the time that these financial statements were prepared and reviewed, the District was not aware of any items that could significantly affect its financial health in the future.

OSCEOLA-LAKE CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2005

I. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, please contact the Osceola-Lake Conservation District, 138 W. Upton, Suite 2, Reed City, MI 49677.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

| | |
|----------------------------|-------------------|
| Cash | \$ 83,382 |
| Certificates of Deposit | 53,338 |
| Accounts Receivable | 447 |
| Due from Other Governments | <u>12,700</u> |
| TOTAL CURRENT ASSETS | <u>\$ 149,867</u> |

LIABILITIES

CURRENT LIABILITIES

| | |
|---------------------------|--------------|
| Accounts Payable | \$ 7,419 |
| Accrued Payroll | 2,018 |
| Payroll Withholdings | <u>1,050</u> |
| Total Current Liabilities | \$ 10,487 |

NON CURRENT LIABILITIES

| | |
|----------------------|--------------|
| Compensated Absences | <u>6,797</u> |
| Total Liabilities | \$ 17,284 |

NET ASSETS

| | |
|----------------------------------|-------------------|
| Unrestricted | <u>132,583</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 149,867</u> |

The notes to the financial statements are an integral part of this statement.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2005

| <u>FUNCTIONS/PROGRAMS</u> | <u>EXPENSES</u> | <u>PROGRAM REVENUES</u> | | <u>GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u> |
|--------------------------------|-----------------|-------------------------|---------------|--|
| | | <u>CHARGES FOR</u> | <u>GRANTS</u> | |
| | | <u>SERVICES</u> | | |
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | |
| General Government | \$ 140,475 | \$ 65,858 | \$ 37,501 | \$ (37,116) |
| <u>GENERAL REVENUES</u> | | | | |
| Investment Earnings | | | | \$ 2,243 |
| State Sources | | | | 53,650 |
| Other | | | | 1,640 |
| Total General Revenues | | | | \$ 57,533 |
| Change in Net Assets | | | | \$ 20,417 |
| NET ASSETS - Beginning of Year | | | | 112,166 |
| NET ASSETS - End of Year | | | | \$ 132,583 |

The notes to the financial statements are an integral part of this statement.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

BALANCE SHEET
GENERAL FUND

SEPTEMBER 30, 2005

ASSETS

| | |
|----------------------------|---------------|
| Cash | \$ 83,382 |
| Certificates of Deposit | 53,338 |
| Accounts Receivable | 447 |
| Due from Other Governments | <u>12,700</u> |

| | |
|--------------|-------------------|
| TOTAL ASSETS | <u>\$ 149,867</u> |
|--------------|-------------------|

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|----------------------|--------------|
| Accounts Payable | \$ 7,419 |
| Payroll Withholdings | 2,018 |
| Deferred Revenue | <u>1,050</u> |
| Total Liabilities | \$ 10,487 |

FUND BALANCE

| | |
|--------------|----------------|
| Unreserved | |
| Undesignated | <u>139,380</u> |

| | |
|---------------------------------------|-------------------|
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 149,867</u> |
|---------------------------------------|-------------------|

The notes to the financial statements are an integral part of this statement.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

SEPTEMBER 30, 2005

| | |
|--|--------------------------|
| General Fund Balance | \$ 139,380 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Long term liabilities are not due and payable in the current period and are not reported in the funds | |
| Compensated Absences | <u>(6,797)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 132,583</u></u> |

The notes to the financial statements are an integral part of this statement.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2005

REVENUES

| | |
|--|------------|
| State Grants | |
| MDA Operations Grant | \$ 19,200 |
| Private Lands Technical Assistance Grant | 34,450 |
| Grants from Local Units of Government | |
| Osceola County | 7,000 |
| Lake County | 1,000 |
| Hazardous Household Waste | 28,751 |
| Pere Marquette Project | 750 |
| Charges for Services | |
| Forest Stewardship Plans | 1,176 |
| Tree Sales | 59,215 |
| Other Materials and Supplies Sales | 3,848 |
| Newsletter Advertising | 1,619 |
| Interest | 2,243 |
| Other Receipts | |
| Memberships | 758 |
| Reimbursements | 731 |
| Donations | 151 |
| | <hr/> |
| Total Revenues | \$ 160,892 |

EXPENDITURES

| | |
|---|-----------|
| Soil Conservation | |
| Wages, Mileage and Payroll Taxes | \$ 29,477 |
| Health Insurance | 1,980 |
| Worker's Compensation Insurance | 237 |
| Property and Liability Insurance | 403 |
| Cost of Trees for Resale | 38,634 |
| Cost of Other Supplies and Materials for Resale | 2,950 |
| Employee Training | 182 |
| Office Supplies | 1,405 |
| Audit Fees | 600 |
| Telephone | 130 |
| Donations | 415 |
| Travel | 1,885 |
| Printing and Publishing | 2,072 |
| Fees and Dues | 2,385 |

The notes to the financial statements are an integral part of this statement.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2005

| | |
|--|--------------------------|
| Postage and Delivery | 2,483 |
| Forestry Reimbursement-Mecosta Conservation District | 1,193 |
| Groundwater Expenses | |
| Wages | 26,043 |
| Contracted Services | 8,091 |
| Supplies | 153 |
| Pere Marquette Project Expenses | 500 |
| Household Hazardous Waste Pick-Up | 18,613 |
| Total Expenditures | <u>\$ 139,831</u> |
| Net Change In Fund Balance | <u>\$ 21,061</u> |
| <u>FUND BALANCE</u> - Beginning of Year | <u>118,319</u> |
| <u>FUND BALANCE</u> - End of Year | <u><u>\$ 139,380</u></u> |

The notes to the financial statements are an integral part of this statement.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2005

| | |
|---|------------------------|
| Net change in Fund Balance | \$21,061 |
| Amounts reported for governmental activities are different because: | |
| Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds: | |
| Compensated Absences - Beginning of Year | 6,153 |
| Compensated Absences - End of Year | <u>(6,797)</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$20,417</u></u> |

The notes to the financial statements are an integral part of this statement.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Osceola-Lake Conservation District is governed by a five member board, which is elected by the residents of the district.

The basic financial statements of the Osceola-Lake Conservation District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District implemented the provisions of Statement No. 34 effective October 1, 2003.

In evaluating how to define the Conservation District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing commission, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Conservation District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Conservation District's reporting entity.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

B. Government-wide and Fund Financial Statements

For the year 2003/2004, the District adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 established standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following category.

Unrestricted net assets consist of net assets which are not invested in fixed assets or subject to any external spending constraints. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The basic financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The basic financial statement focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the District are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements

Accrual Method

The basic financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensates absences and claims and judgments, are recorded only when payment is due.

Governmental funds include the following fund type:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the District.

C. Assets, Liabilities and Equity

1. Deposits and Investments

The Conservation District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

(I) State statutes authorize the District to invest funds as follows:

- (a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
- (c) In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) In repurchase agreements consisting of instruments listed in subdivision (a).
- (e) In bankers' acceptances of United States banks.
- (f) In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with commission to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- (h) In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
 - (i) In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.118.
 - (j) In the investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. Capital Assets

Capital assets, which include property, plant and equipment, would be reported in the applicable governmental columns in the basic financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. The District has no assets that meet these criteria.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

3. Long-Term Debt - Compensated Absences

Using the criteria established in Governmental Accounting Standards Board (GASB) Statement 16, a liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place. Criteria for recognition of these two basic types of compensated absences are as follows:

- (a) Vacation and Similar Leave Absences - should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:
 - (i) The employees' rights to receive compensation are attributable to services already rendered.
 - (ii) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.
- (b) Sick and Similar Leave Absences - should be accrued as a liability as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employee's retirement. Accumulated sick leave is paid out at one half of the employee's current hourly rate with up to a maximum of 500 hours.

It is the Conservation District's policy to permit employees to accumulate earned but unused sick and vacation pay. At September 30, 2005, the vacation and sick benefits accrued were \$6,797.

II. DETAILED NOTES

A. **Cash and Deposits**

The District's deposits and investments are all on deposit with Lake Osceola State Bank and Huntington Bank.

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the District's investment policy.

Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2005, \$16,626 of the government's bank balance of \$139,681 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District is covered under insurance policies to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Conservation District.

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2005

| | <u>BUDGET</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| REVENUES | | | | |
| State Grants | | | | |
| MDA Operations Grant | \$ 20,000 | \$ 19,200 | \$ 19,200 | \$ 0 |
| Private Lands Technical Assistance Grant | 31,353 | 35,500 | 34,450 | (1,050) |
| Grants from Local Units of Governments | | | | |
| Osceola County | 7,000 | 7,000 | 7,000 | 0 |
| Lake County | 1,000 | 1,000 | 1,000 | 0 |
| Hazardous Household Waste | 40,000 | 28,751 | 28,751 | 0 |
| Pere Marquette Project | 0 | 750 | 750 | 0 |
| Charges for Services | | | | |
| Forest Stewardship Plans | 0 | 1,176 | 1,176 | 0 |
| Tree Sales | 42,674 | 59,215 | 59,215 | 0 |
| Other Materials and Supplies Sales | 3,700 | 3,848 | 3,848 | 0 |
| Newsletter Advertising | 1,200 | 1,619 | 1,619 | 0 |
| Interest | 1,725 | 2,233 | 2,243 | 10 |
| Other Receipts | | | | 0 |
| Memberships | 1,430 | 758 | 758 | 0 |
| Reimbursements | 96 | 731 | 731 | 0 |
| Donations | 180 | 151 | 151 | 0 |
| Total Revenues | \$ 150,358 | \$ 161,932 | \$ 160,892 | \$ (1,040) |
| EXPENDITURES | | | | |
| Soil Conservation | | | | |
| Wages, Mileage and Payroll Taxes | \$ 30,920 | \$ 29,477 | \$ 29,477 | \$ 0 |
| Health Insurance | 1,980 | 1,980 | 1,980 | 0 |
| Worker's Compensation Insurance | 150 | 237 | 237 | 0 |
| Property and Liability Insurance | 430 | 403 | 403 | 0 |
| Cost of Trees for Resale | 30,500 | 38,634 | 38,634 | 0 |
| Cost of Other Supplies and Materials for Resale | 3,200 | 2,950 | 2,950 | 0 |
| Employee Training | 200 | 182 | 182 | 0 |
| Office Supplies | 2,070 | 1,405 | 1,405 | 0 |
| Audit Fees | 600 | 600 | 600 | 0 |
| Telephone | 550 | 130 | 130 | 0 |

OSCEOLA-LAKE CONSERVATION DISTRICT
REED CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2005

| | <u>BUDGET</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| Donations | 375 | 415 | 415 | 0 |
| Travel | 970 | 1,885 | 1,885 | 0 |
| Printing and Publishing | 2,660 | 2,072 | 2,072 | 0 |
| Fees and Dues | 2,350 | 2,385 | 2,385 | 0 |
| Postage and Delivery | 2,050 | 2,483 | 2,483 | 0 |
| Forestry Reimbursement-Mecosta Conservation District | 0 | 1,193 | 1,193 | 0 |
| Groundwater Expenses | | | | |
| Wages, Mileage and Payroll Taxes | 27,500 | 26,043 | 26,043 | 0 |
| Contracted Services | 3,853 | 9,141 | 8,091 | 1,050 |
| Supplies | 0 | 153 | 153 | 0 |
| Pere Marquette Project Expenses | 0 | 500 | 500 | 0 |
| Household Hazardous Waste Pick-Up | 40,000 | 18,613 | 18,613 | 0 |
| Total Expenditures | <u>\$ 150,358</u> | <u>\$ 140,881</u> | <u>\$ 139,831</u> | <u>\$ 1,050</u> |
| Net Change In Fund Balance | 0 | 21,051 | 21,061 | 10 |
| <u>FUND BALANCE</u> - Beginning of Year | <u>118,319</u> | <u>118,319</u> | <u>118,319</u> | <u>118,319</u> |
| <u>FUND BALANCE</u> - End of Year | <u>\$ 118,319</u> | <u>\$ 139,370</u> | <u>\$ 139,380</u> | <u>\$ 118,329</u> |